

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-235

August 5, 1998

CENTRAL MAINE POWER COMPANY
Application for Approval of a Decrease
in Capital (\$910)(11,000,000 shares
of Common Stock)

ORDER APPROVING
REDUCTION IN CAPITAL

WELCH, Chairman; NUGENT, Commissioner

On March 26, 1998, Central Maine Power Company (CMP or the Company) filed with the Commission its request for approval to decrease its common equity capital by up to 11 million common shares over a period of three years from the date of this Order. This Order approves the Company's request.

The Company has stated that one of the outcomes of the proposed divestiture¹ of its generation asset portfolio for approximately \$846 million, will be the mandatory retirement of the bulk of its outstanding first mortgage bonds. This will result in CMP's capital structure being heavily weighted in favor of common equity² which, under normal circumstances, is the most costly source of investment capital for a business. Thus, rebalancing CMP's post-divestiture capital structure is consistent with the interests of its ratepayers as it will reduce CMP's weighted average cost of capital, a cost that ratepayers are traditionally obligated to pay.

CMP has therefore requested permission to proceed with the repurchase of 3 million common shares prior to the closing of its asset divestiture, with the remaining 8 million shares being reserved for after the closing. The Company also requested that it be allowed three years to complete the repurchase of the 11 million share total.

Allowing the extended time period is reasonable. It will permit CMP the flexibility to choose the most appropriate times to reacquire its shares. We do note, however, that open market purchases are but one way for CMP to reduce of its common equity ratio. During periods of relatively high stock prices, other mechanisms may be less expensive.

¹In Docket No. 98-058.

²If no shares were repurchased and the divestiture closed at \$846mm as proposed, CMP's common equity ratio could approach 70% in 1999 which is well above utility industry norms.

Having reviewed the application of the Company, together with data filed in support of it, we find CMP's request for the reduction of capital is appropriate. In approving this request the Commission does not imply approval of the Company's current or projected capital structure or its current or projected cost of capital for ratemaking purposes. Furthermore, this Order does not limit or restrict the powers of the Commission in determining a capital structure or cost rate in future proceedings, most notably Docket No. 97-580, CMP Stranded Costs, T&D Utility Revenue Requirements & Rate Design and Docket No. 98-058, CMP Divestiture of Generation Assets. Finally, we intend to review the price CMP pays for any stock repurchases, particularly in any instances where purchases are made at prices which are substantially above book value.

Accordingly, we

O R D E R

1. That Central Maine Power Company is authorized to repurchase up to 11,000,000 of its common shares over a period of three years from the date of this Order, provided that it may not repurchase more than 3,000,000 shares prior to the closing of the sale of its generation assets.

2. That Central Maine Power Company report its doings pursuant to this Order to this Commission on December 31, 1998, and quarterly thereafter. If the relevant information (including, at minimum, date(s) of purchase, number of shares purchased, purchase price, commissions paid to agents, other charges or fees) is contained within the Company's Quarterly 10-Q Reports and Annual 10-K Reports filed with the Securities and Exchange Commission, CMP will not be required to provide additional information unless specifically requested by the Commission.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 5th day of August, 1998.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.